

Headquarters U.S.A.F.

Integrity - Service - Excellence

Procurement Transformation The Road Ahead



U.S. AIR FORCE

**Mr. Dan Bowman
SAF/AQCA
10 Apr 03**



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Overview

Procurement Transformation

- **Vision**
- **Objectives**

Transformation Strategy

- **Professional Development & Education Plan**
- **Service Delivery Plan**
- **Strategic Sourcing Plan**
- **Communication Plan**



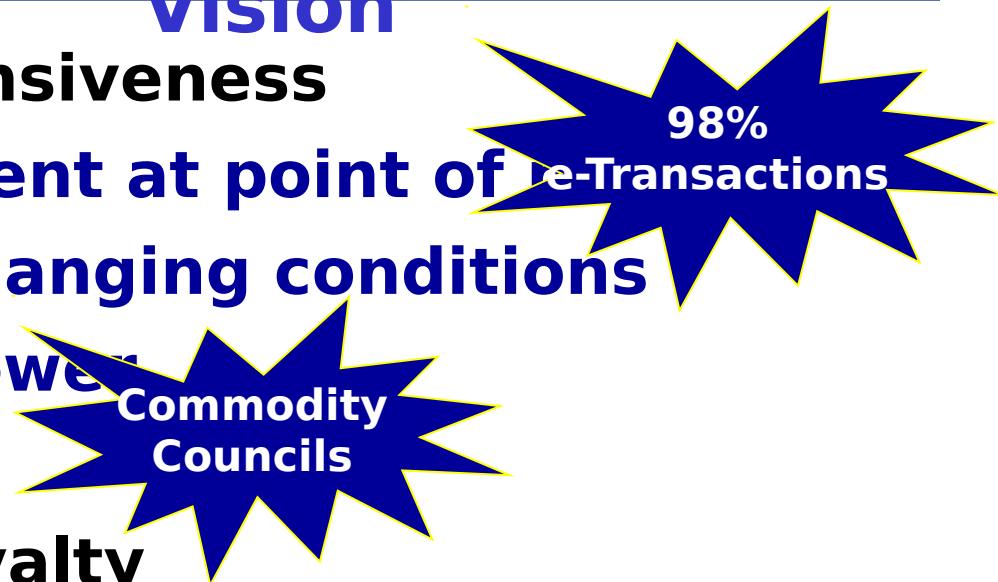
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Procurement Transformation

Vision

Improve mission responsiveness

- **Enable e-Procurement at point of e-Transactions**
- **Adapt flexibly to changing conditions**
- **Optimize buying power**



Earn our customers' loyalty

- **Embrace risk and accountability**
- **Be first choice for business advice**

Mission-focused, multi-skilled business professionals leveraging world-class processes and technology



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Procurement Transformation Objectives

People

- **Develop commodity strategists, supply relationship managers, and e-Business experts**

Processes

- **Integrate processes & implement strategic sourcing**

Policy

- **Encourage and support FAR Part One flexibility**

Technology

Our future rests upon the strength of these four pillars



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Procurement Transformation

Tactical to Strategic Workforce

Strategic

Shift

From transaction based purchasing

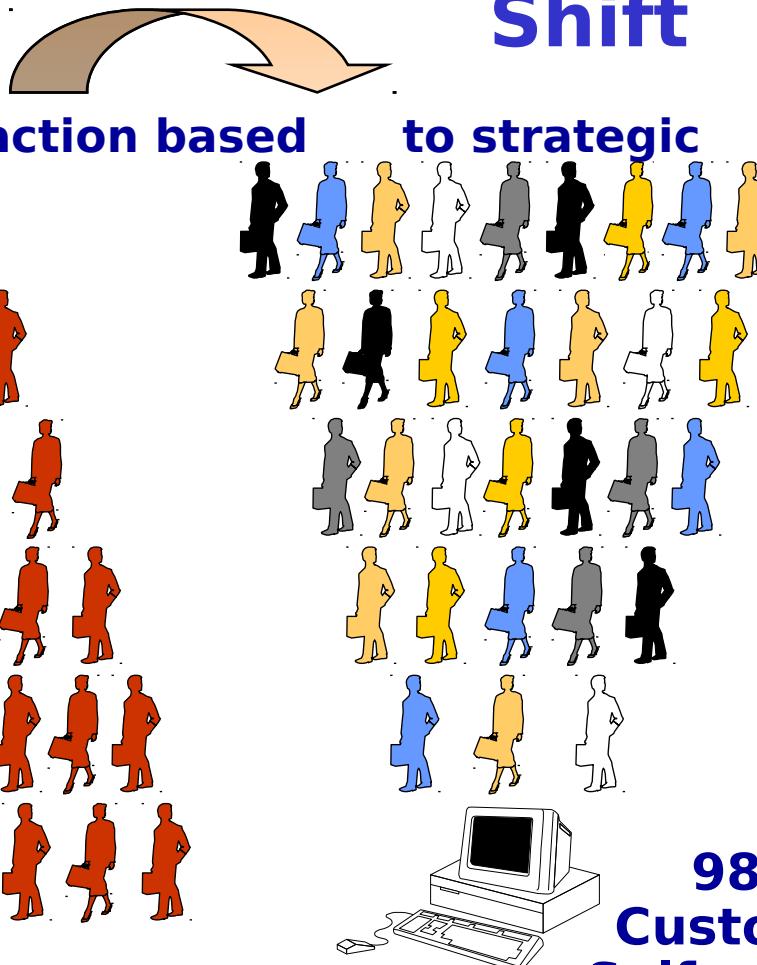
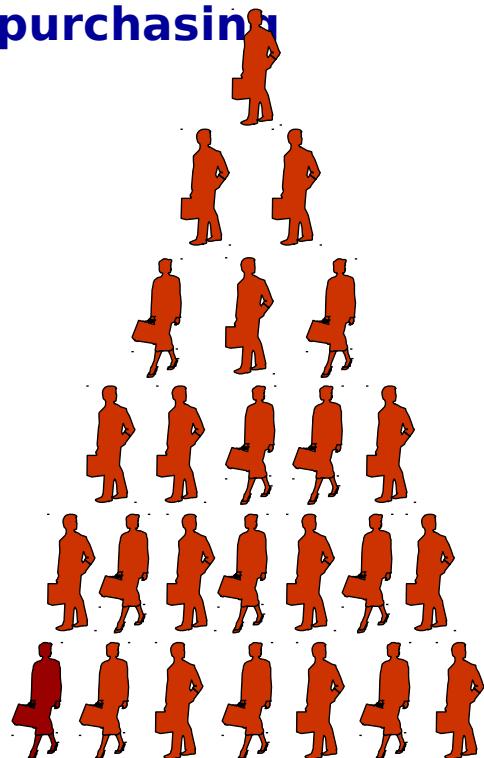
to strategic

A future focus on supplier and vendor base management

New frontiers in how we interface with the marketplace

More rewarding day-to-day work for contracting professionals

Tactical



Adapted from RAND

98%
Customer
Self service



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Procurement Transformation Initiatives

Improve the Process

Service Delivery
Plan

Spread the Word

Communications

Two umbrella plans to enable specific improvements

Phase I

Professional Development and Education Plan

- Develop workforce into market savvy, e-Business minded team members with clear career paths

Strategic Sourcing Plan

- Leverage the Air Force's multi-billion dollar purchasing power through commodity



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Professional Development & Education

Goal: Develop mission-focused, multi-skilled business professionals leveraging world-class processes and technology

- Focused on the future, we must transform our workforce to become commodity strategists, supplier relationship managers, & e-Business experts
 - Establish a baseline warrant knowledge level
 - Consolidate and leverage workforce market expertise
 - Provide 'one click' access to AF best practices
- Exploit technology & industry best practices to enhance education / training
- Align career paths to meet capability requirements & Warfighters' priorities

Plan

Objectives:

- Migrate workforce to strategic skill sets
- Develop 'Communities of Practice'
- Provide clear personnel career paths

POC: Capt Jennifer Grant, SAF/AQCA, DSN 425-

7061

AF Contracting--Turning Dollars and Desires into Dominant Aerospace Power



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Service Delivery

Goal: Deliver world class service to AF procurement customers

Objectives:

- Improve customer satisfaction
- Optimize and automate processes
- Foster innovation and risk management

- Focus each transformation initiative heavily upon process improvement
 - Integrate cross-functional processes to provide seamless support
 - Enable 'hands free' procurement at point of need
 - Exploit technology and automation to simplify the procurement process
- Embrace risk and accountability... encourage thoughtful innovation
- Shift from tactical mindset to strategic processes

425-7227

Capt Mark Hansen, SAF/AQCA, DSN



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Strategic Sourcing

Goal: Leverage the AF's multi-billion dollar purchasing power

Objectives:

- Improve customer support
- Reduce purchase cost of items
- Increase quality of goods and services
- Accelerate delivery

responsiveness

- Market-savvy Commodity Councils will be primary implementation drivers
 - Develop enterprise-wide procurement strategies
 - Integrate customers and suppliers
 - Drive commonality and standardization
 - Leverage purchasing volume
- Centralized strategy . . . decentralized execution
- Replicate commercial industry success

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AF Contracting--Turning Dollars and Desires into Dominant Aerospace Power



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Procurement Transformation Communication Plan

Goal: Communicate end state vision to all stakeholders

Objectives:

- Foster AF-wide support
- Champion new initiatives
- Establish open communication lines
- Facilitate knowledge sharing

- Web-based media will be principle method of communication
 - Integrate ongoing initiatives into a single, consistent message
 - Garner feedback from the field regarding initiatives
 - Connect with specific audiences with targeted precision
- Push the transformation message to the field
- Pull new initiatives and ideas from the field

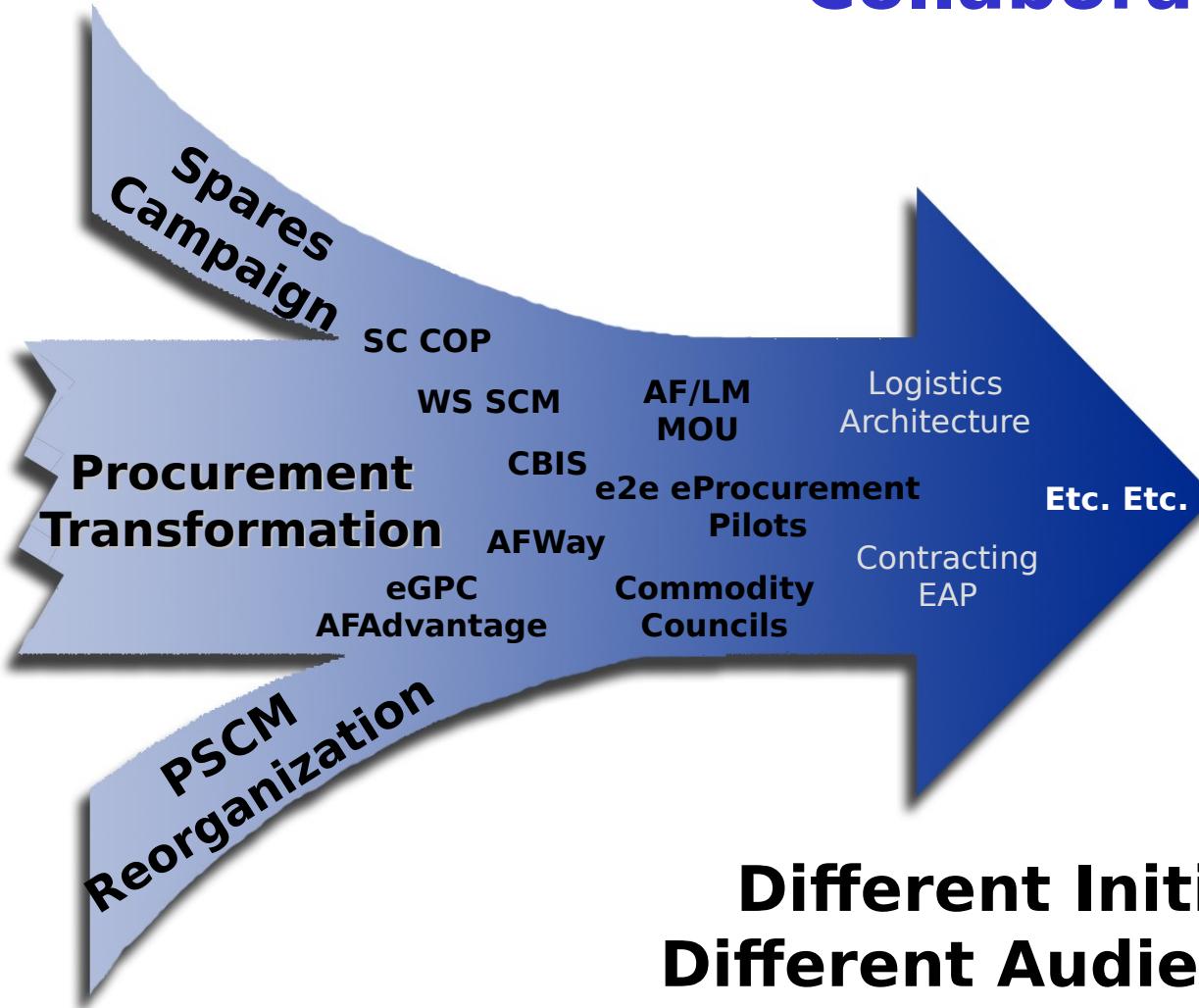
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Synergy of Efforts Transformation Requires Collaboration



- Improve customer support
- Reduce purchase cost of items
- Increase quality of goods and services
- Accelerate delivery responsiveness



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Bottom Line

**We must remain
'joined at the hip'**

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Commodity Council Implementation

The Call for Action



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**Capt Mark Hansen
SAF/AQCA
5 Mar 03**



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Commodity Council Overview

'Commodity' = segmentable category of goods or services

- **Does not imply an expendable or non-complex item**

'Commodity Council' = cross-functional sourcing team

- **Develop enterprise-wide procurement strategies**
- **Integrate customers and suppliers**
- **Drive commonality and standardization**
- **Leverage purchasing volume**

Characteristics of a Commodity Council:

- **Executive-level endorsement**
- **Well-informed and market savvy commodity experts**
- **Centralized strategy . . . decentralized execution**



Commercial Industry Success

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'Economies of Scale' widely-accepted method of cost saving

- 'Volume leverage' is #1 strategy for purchasing cost reduction
- Avg. purchase cost reduction goal for manufacturing firms = 12%

Purchasing Magazine, 10 Oct 02

Not a new concept

- Advocated by Purchasing & Supply Chain Management initiative within AF's Spares Campaign
- Farming co-ops, distributors, 3PLs, consortiums, etc.
- In 1997, 20% of Fortune 500 firms participated in consortiums, garnering 13.4% savings and a 767% ROI

CAPS Research, 1997

It's about combining individual needs to gain leverage

- The same way your personal finances benefit from consolidation!
 - E.g., mutual funds, 401Ks, Costco, Sam's Wholesale, 12-pack vs. 6-pack, etc.



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Commercial Industry Success (cont.)

Leading industry firms are radically reducing purchasing costs . . . over and over again . . . year after year

- **TIMKEN** - 10% reduction across safety supplies and then another 23% by consolidating spend via third-party firm
- **WHIRLPOOL** - \$200M reduction this year (15-20% targets)
- **INGERSOLL-RAND** - \$300M (direct) and \$100M (indirect) savings achieved (avg. 17% . . . up to 50% savings in certain commodities)
- **TEXTRON** - \$100M saved in purchase costs this past year alone
- **DUPONT** - \$400M (14%) last year . . . this year's goal = \$1B
- **KODAK** - \$1.4B . . . double-digit productivity targets again this yr.
- **ENGELHARD** - 25% productivity improvement goals this year
- **MOTOROLA PCS** - Anticipates \$500M savings possible if standardization/commonality achieved across product lines

Manufacturers Alliance's Purchasing Council, Oct 02

Commodity Councils and volume leverage are key factors!



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Air Force Vision

Achieve cost savings and performance improvements by leveraging commodity volumes across the Air Force

- Improve customer support**
- Reduce purchase cost of items**
- Increase quality of goods and services**
- Accelerate delivery responsiveness**

Implement the 'Commodity Council' concept within the AF

- Eliminate duplication of effort**
- Minimize supply chain costs through integration / collaboration**
- Demonstrate the power of leveraged purchasing**



Where We Can Improve Performance

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Our AF spend profile shows many leverage opportunities

- **CUSTODIAL - JANITORIAL SVS.** - \$140M, 80 purchasing offices, 239 new contracts, 177 contractors
- **OFFICE FURNITURE** - \$76M, 79 purchasing offices, 363 new contracts, 179 contractors
- **TRASH - GARBAGE COLLECTION SVS.** - \$40M, 72 purchasing offices, 124 new contracts, 83 contractors
- **ADP EQUIP.** - \$904M, 85 purchasing offices, 462 new contracts
- **MAINTENANCE (OFFICE BLDGS.)** - \$237M, 69 purchasing offices, 358 new contracts, 282 contractors
- **LANDSCAPING - GROUNDSKEEPING** - \$61M, 59 purchasing offices, 114 new contracts, 76 contractors

RAND's Analysis of FY01 AF-wide DD350 data

Etc. Etc. Etc. environment! . . we have a target-rich



Vision Supports Logistics Doctrine

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Centralized authority and control is required to ensure:

- **Effective execution of operations**
- **Effectiveness, efficiency, and economy of operation**
- **Limitation or mitigation of operational risk**
- **Prevention or elimination of unnecessary duplication of facilities and overlapping of functions**

This directive authority is not intended to:

- **Discontinue decentralized responsibility for logistics support**
- **Discourage coordination by consultation and agreement**
- **Disrupt effective procedures or efficient use of facilities or organizations**

Doctrine for Logistics Support of Joint Operations, Joint Pub 4-0, 6 Apr 00



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Centralization Works in Peace and War

'Each service component has the capability to initiate contracts for needed support. However, the CINC may elect to employ the Joint Theater Logistics Management (JTLM) element or establish a contract clearing house to ensure that service components are not bidding against each other for the same commodity or service.'

Doctrine for Logistics Support of Joint Operations, Joint Pub 4-0, 6 Apr 00



But It's Important to Get it Right!

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'The logistic system must be responsive to the needs of the most forward combat forces. It must start from CONUS and extend to the forward operational areas, providing supplies and services when and where they are needed.'

4-0, 6 Apr 00

Doctrine for Logistics Support of Joint Operations, Joint Pub



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What the Impact Can Be

AF's sustainment / operational spend = \$35B annually

- **If we meet industry's 12% avg. goal, we can save \$4.2B**
 - $\$4.2B = 40 \text{ F-22 Raptors}$
= **105 Joint Strike Fighters**
= **21 C-17 Globemaster IIIs**
~ the AF's 'Spares' budget
> the GDPs of 68 nations

When does it become meaningful to you?

- **12% savings in Office Furniture = \$9.12M**
- **12% savings in ADP Equipment = \$108.5M**
- **12% savings in Trash Collection = \$4.8M**

Now is the time . . . we can't afford to wait any longer

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The Commodity Council

An Implementation Guide



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Captain Mark Hansen
SAF/AQCA
5 Mar 03

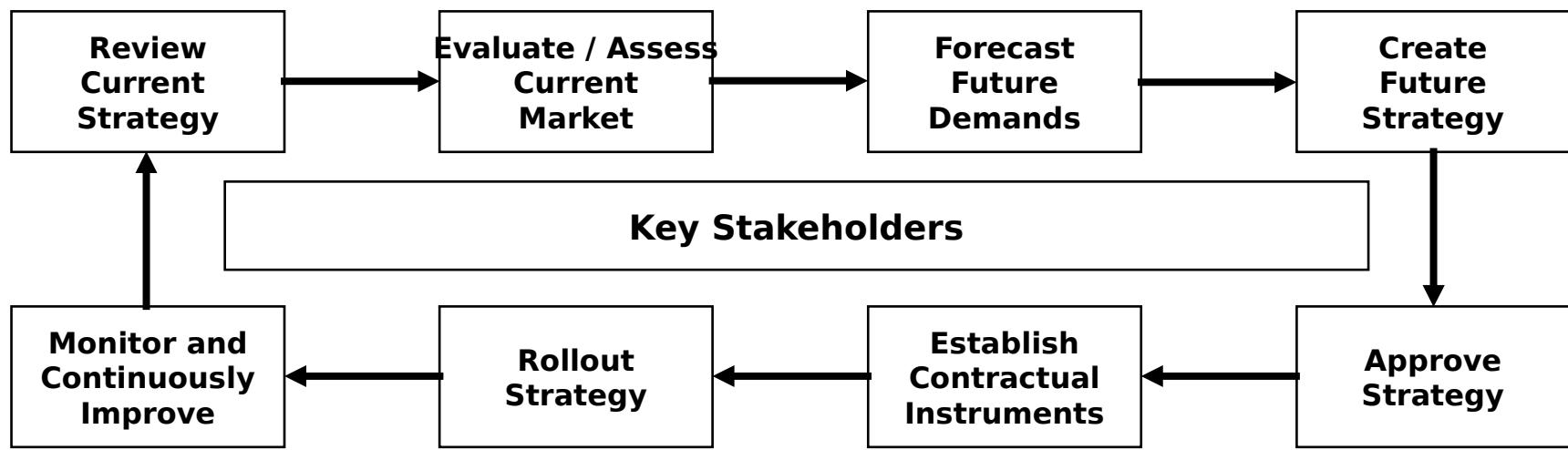


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Process Overview

- Each Commodity Council will have adequate cross-functional representation and will utilize a standardized process

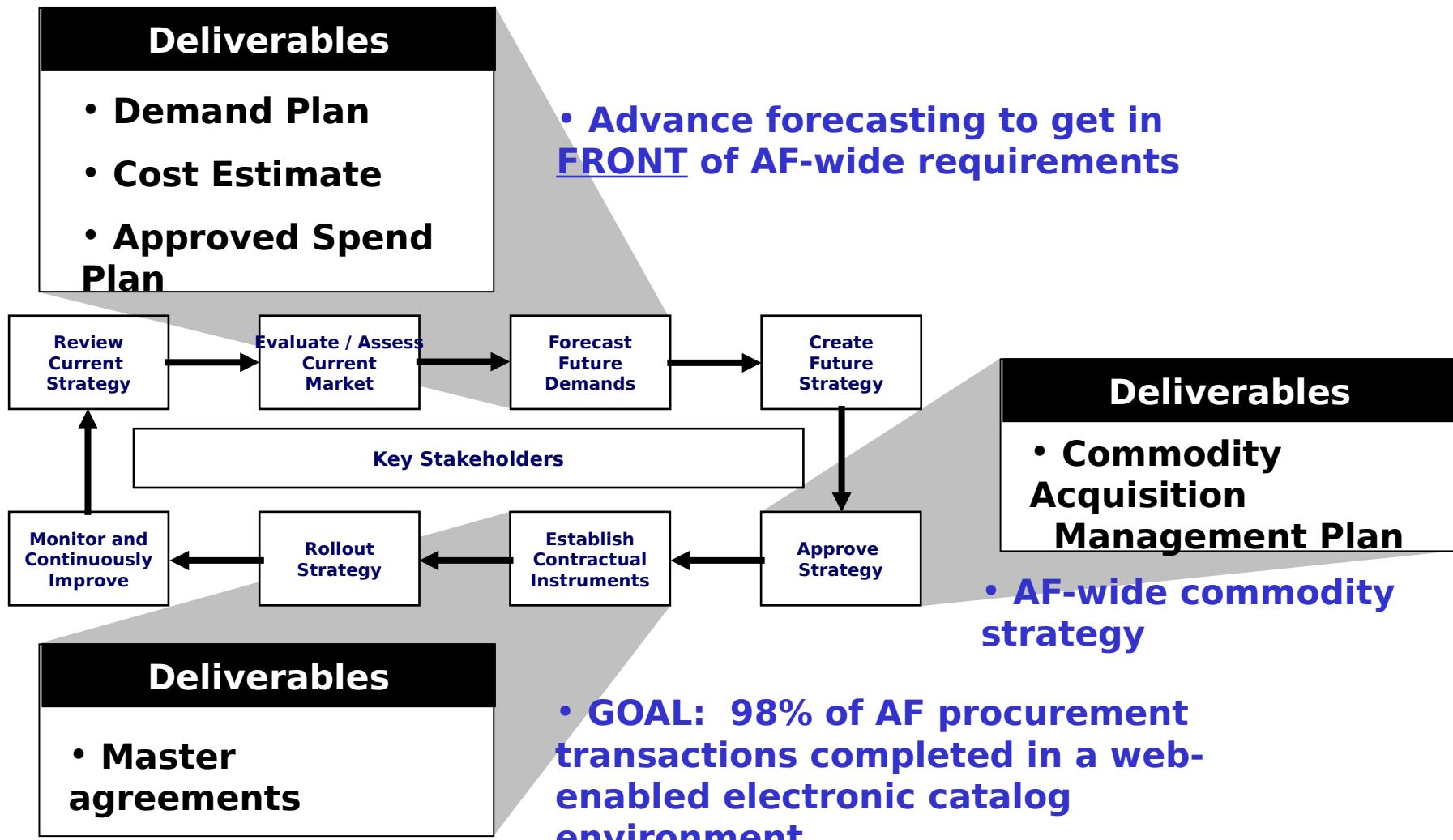
Commodity Council Process





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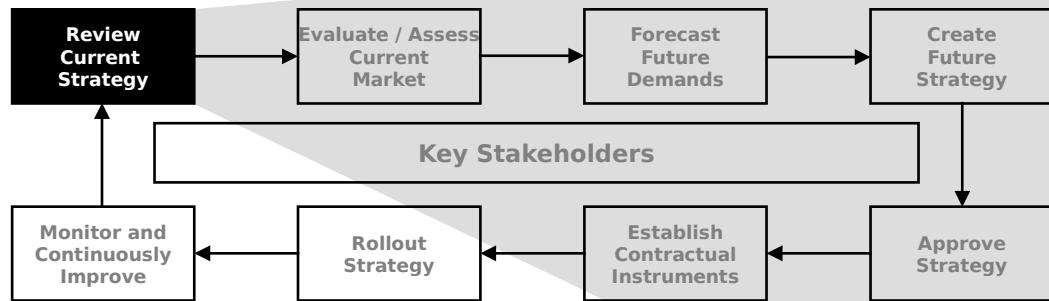
What's Different Than Today?





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1.0 - Review Current Strategy



- 1.1 - Begin communication / implementation planning
- 1.2 - Conduct spend analysis
- 1.3 - Identify stakeholders
- 1.4 - Identify current initiatives / contracts
- 1.5 - Identify current policy and statutory requirements
- 1.6 - Detail current processes with users
- 1.7 - Document current metrics being tracked
- 1.8 - Hold review sessions with major users and suppliers
- 1.9 - Benchmark existing strategies
- 1.10 - Define leverage opportunities

Deliverables / Tools

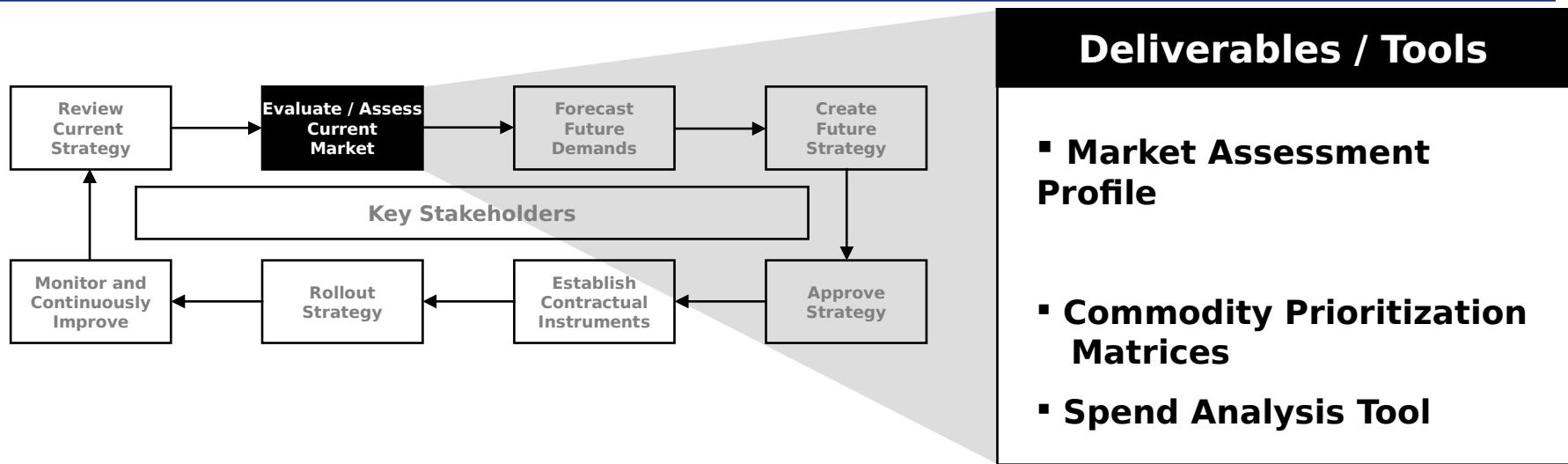
- Spend Analysis Report
- Current Strategy Report
- Leverage Analysis Report
- Draft Communication Plan
- Draft Implementation Plan

▪ Spend Analysis Tool



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2.0 - Evaluate / Assess Current Market

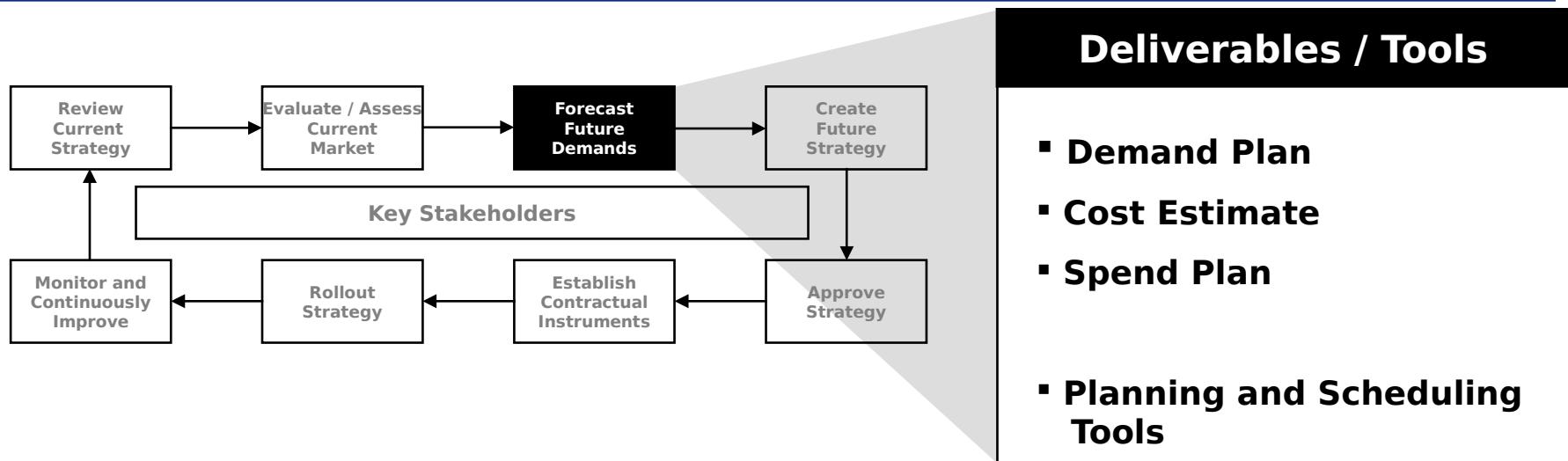


- 2.1 - Determine data sources
- 2.2 - Document market trends
- 2.3 - Analyze market for emerging suppliers / commodities
- 2.4 - Request information from leading suppliers
- 2.5 - Analyze suppliers' capacity / capabilities
- 2.6 - Determine market availability of commodities
- 2.7 - Stratify suppliers by socio-economic status
- 2.8 - Develop key industry cost drivers
- 2.9 - Evaluate current strategy against best practices



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3.0 - Forecast Future Demands

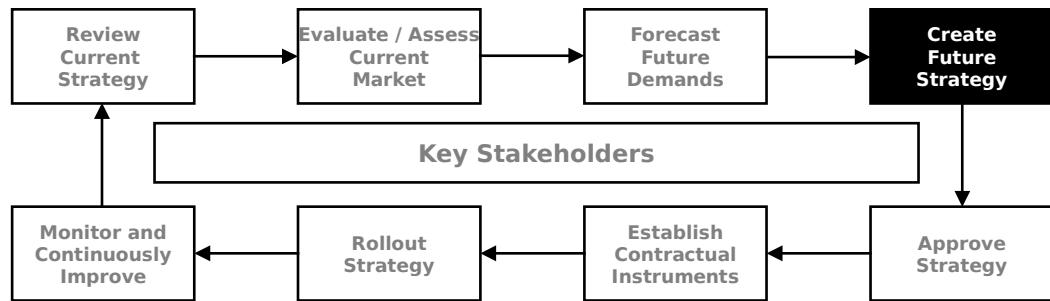


- 3.1 - Collect requirements information from stakeholders
- 3.2 - Develop customer-approved demand forecast
- 3.3 - Evaluate demand forecast against key cost drivers
- 3.4 - Establish cost estimate for demand forecast
- 3.5 - Analyze projected funding against demand forecast
- 3.6 - Determine spend projections
- 3.7 - Validate spend plan with stakeholders



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4.0 - Create Future Strategy



Deliverables / Tools

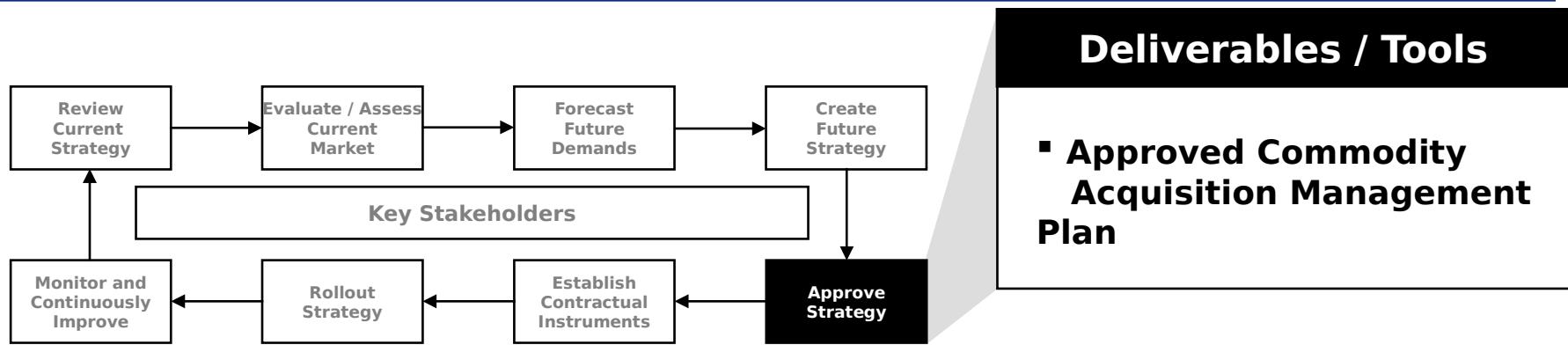
- Recommended Commodity Acquisition Management Plan
- Knowledge Management Tool

- 4.1 - Develop and prioritize commodity goals**
- 4.2 - Analyze gap between existing strategy and goals**
- 4.3 - Develop strategies for meeting specific goals**
- 4.4 - Analyze spend plan against supply base capabilities**
- 4.5 - Generate approved supplier recommendations**
- 4.6 - Synchronize demand forecast and suppliers' capabilities**
- 4.7 - Mitigate internal / external threats to supply chain stability**
- 4.8 - Develop Commodity Acquisition Management Plan**
- 4.9 - Establish stakeholder consensus**



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5.0 - Approve Strategy

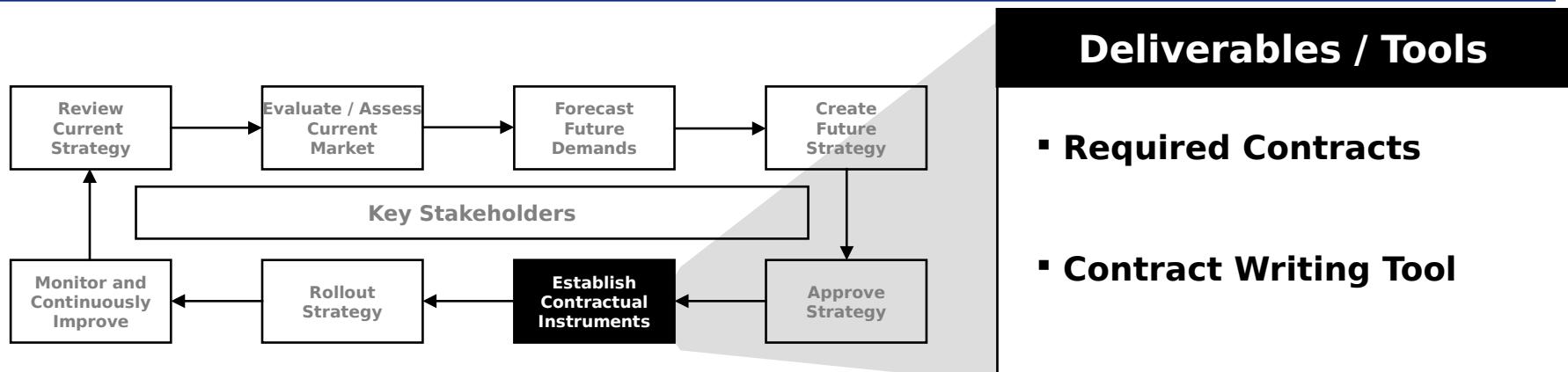


- 5.1 - Approve Commodity Acquisition Management Plan**
- 5.2 - Allocate workload to establish required new contracts**
- 5.3 - Communicate workload responsibilities**



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6.0 - Establish Contractual Instruments

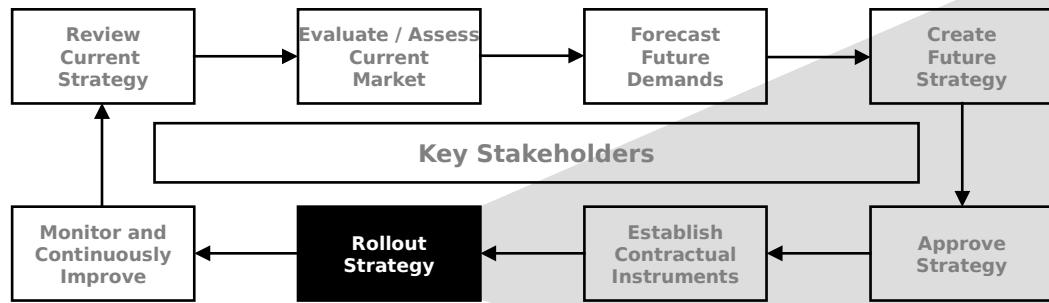


- 6.1 - Issue requests for proposals**
- 6.2 - Analyze proposals**
- 6.3 - Negotiate with suppliers**
- 6.4 - Select suppliers**
- 6.5 - Award contracts**



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7.0 - Rollout Strategy



Deliverables / Tools

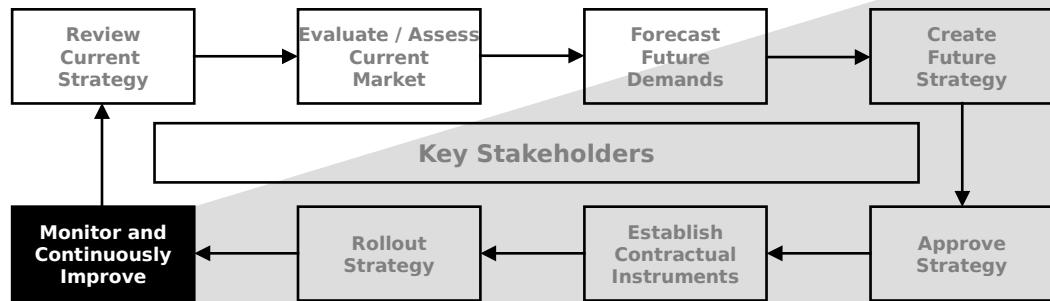
- Rules of Engagement
- Training / Education
- Executed Commodity Class Strategy
- Knowledge Management Tool

- 7.1 - Communicate implementation strategy to stakeholders
- 7.2 - Conduct required training / education
- 7.3 - Conduct implementation kick-off meetings
- 7.4 - Transition from previous suppliers
- 7.5 - Execute against new strategy / contracts
- 7.6 - Verify implementation
- 7.7 - Ensure compliance



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8.0 - Monitor & Continuously Improve



- 8.1 - Collect feedback from stakeholders
- 8.2 - Collect industry data
- 8.3 - Analyze strategy performance and market changes
- 8.4 - Change operating budgets to reflect optimization
- 8.5 - Reevaluate and loop back

Deliverables / Tools

- Continuous Improvement
- Compliance Reporting
- Performance Reporting
- Customer Service Reporting
- Strategy Adjustments

- Supplier Relationship Management Tool
- Customer Relationship Management Tool
- Balanced Scorecard



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Procurement Transformation ~~Points of Contact~~

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